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ABSTRACT

The history of the role of state guarantee agencies in the Guaranteed Student Loan (GSL) Program is reviewed in terms of the initiation of the GSL program, the growth of the Federally Insured Student Loan Program, the initiation of the special allowance, and the Education Amendments of 1972, the Education Amendments of 1976, the Middle Income Student Assistance Act (MISAA), and the Reconciliation Act of 1981. By 1976, the state guaranteed loan programs generally appeared to be better administered, to enjoy the confidence of their commercial lending communities, and to have lower default rates, by more aggressively collecting on defaulted loans. The Education Amendments of 1976 encouraged the formation of state guarantee agencies. Since Congress passed the MISAA in 1978, student participation rates and the average loan amount increased. All states now have GSL program guarantee agencies, which have developed high levels of expertise and close ties with lenders, schools, and borrowers. The federally funded GSL program is the largest form of higher education assistance, and the guarantee agencies administer it. Appended materials include: information on guarantee agency functions and activities, comparative data on federal student aid programs, and GSL data by state. (SW)

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HISTORICAL OVERVIEW OF THE ROLE OF STATE GUARANTEE AGENCIES IN THE GUARANTEED STUDENT LOAN PROGRAM

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NATIONAL COMMISSION ON
STUDENT FINANCIAL ASSISTANCE

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EXHIBITS

I. THE EARLY YEARS

A. Initiation of the Guaranteed Student Loan Program (GSLP)

In 1956 Massachusetts started the first state guarantee agency for student loans. The forces that gave rise to the Massachusetts Agency soon began to be felt in other states as well. By 1965, at the national level, it had become apparent that the traditional methods of financing postsecondary education (i.e., parental contribution, student earnings, and limited scholarships awarded on the basis of merit) were not meeting the needs of the rapidly growing college-age population. The cost of postsecondary education threatened to increase beyond the ability of low and middle income parents and students to pay from current income or from savings.

As one solution to the problem, a national program of loans to students was proposed. This loan program would allow the cost of education to be repaid from a borrower's future earnings and to be spaced over a longer, less burdensome period of time.

In order to secure access to private capital for student borrowers, fifteen states (Exhibit I) had, by the mid-1960's, enacted some form of guaranteed loan programs for students. The guarantee of loans by the state provided the security which private lenders required before committing their capital to students. These state programs provided the models for subsequent Federal legislation.

In November, 1965, Congress passed the Higher Education Act. Title IV of the Act established a national program of guaranteed student loans. The role of the Federal government was to reinsure loans guaranteed by states or by private non-profit corporations. Initially, the primary responsibility for the administration of the program was to be a state rather than a Federal responsibility.

However, in the law, Congress did provide for direct Federal guarantees in areas where student borrowers did not have "reasonable access" to loans. This was the beginning of the Federally Insured Student Loan Program (FISLP). However, it was only a stand-by program because the states were to administer the GSLP.

As originally authorized, the GSLP provided provisions to control the demand for student loans (through an income ceiling), incentives to provide a supply of private funds to meet the demand, and mechanisms to administer program

operations. The initial emphasis of the GSLP legislation was support for students who had a demonstrated need for capital which could not be satisfied by family savings or current income. Congress, therefore, made families with annual incomes below $15,000 eligible for an in-school interest subsidy. This $15,000 income cap was an effective device to limit loan demand. Very few GSLP loans were made to students who did not qualify for subsidy payments.

The principal incentive to lenders was substantial risk reduction due to the guarantee (i.e., insurance) on each loan. Because of the guarantee, the interest paid to lenders was less than the market rate for unsecured personal loans.

To promote state participation and encourage the development of state guarantee agencies to administer GSLP, Congress appropriated funds to be advanced to states to use as reserve funds. States could use these funds to pay default claims. In addition, states could use revenues obtained from investment of these funds to pay administrative costs. However, the major source of operating funds would be insurance premiums paid by borrowers.

B. The Growth of the Federally Insured Loan Program

In 1967, amendments to the Higher Education Act redirected the responsibility for the program to the Federal Government. The 1967 amendments enabled the Federal Government to directly insure loans made by lenders in states without a state guarantee agency. The result of the 1967 legislation was a dual insurance program whereby some states independently managed the guarantee program and were reinsured by the Federal Government, and other states relied upon the direct Federal insurance program. This dual insurance approach continued in existence from 1967 to the current period.

In August of 1967, the FISLP was instituted in North Dakota. During the remainder of 1967 and into 1968, several additional states exhausted guarantee capacity and requested the establishment of the FISLP. By the end of 1968, approximately one-half the states had effectively terminated the state agency program and initiated FISLP. All other states continued to administer the GSLP. This balance remained fairly constant through 1976.

C. The Initiation of the Special Allowance

In 1968, interest rates began to rise. The interest rate charged to student borrowers was consequently increased from six percent to seven percent.

Between 1966 and 1969 the average prime rate had risen from 5.63 percent to 7.95 percent. With the yield on student loans at only seven percent, it was difficult to generate the required private capital despite the Federal guarantee for lenders. In view of higher rates, Congress amended the Higher Education Act in 1969 to provide for a Special Allowance in the form of an incremental interest rate to be paid by the Federal Government to lenders. The allowance was to be paid in addition to the basic in-school interest subsidy. This increased the yield to lenders and provided additional incentive for participation in the program.

Lenders were to receive a payment based on the outstanding (unpaid) balance of student loans held by the lender. In no case, however, was the Special Allowance to exceed three percent of the unpaid principal balance of student loans issued by the lenders.

The cost of money issue was to increase in importance. The Special Allowance became a key factor in attracting ever increasing amounts of private capital. It also was to become the major element in the cost of the program (Exhibit VIII).

D. The Education Amendments of 1972

The GSLP constituted slightly more than 19% of major* Federal postsecondary student aid in 1966. The bulk of the aid was provided by National Defense Student Loans (NDSL) and College Work Study (CWS). However, the GSLP quickly became the primary program for making capital available for higher education. By 1971 the GSLP provided nearly 70% of all capital available for major Federal education programs. This resulted because of small growth in the NDSL and CWS programs but a thirteen fold growth in the GSLP between 1966 and 1971 (Exhibit II).

The education amendments of 1972, however, changed this trend. Congress reinforced the Federal role in providing postsecondary education financial aid. Not only were the NDSL and CWS programs strengthened, but new programs were instituted. These were the Basic Education Opportunity Grant (BEOG) and the State Student Incentive Grant (SSIG) programs.

*Includes Federal appropriations and required matching funds for NDSL, SSIG, SEGO, BEOG (PELL) and CWS programs as well as GSLP.

For two years after the 1972 Amendments, and for the first time in the history of the program, GSLP loan volumes decreased. Each year there was a decrease of over $100 million.

One factor that contributed to this short lived decline in GSLP volume was a 1972 amendment which required students to show financial need to qualify for interest subsidy payments. Many lenders did not fully understand the provisions of this amendment. They refused to participate for fear of violating some provision of this law. In order to renew lender participation, Congress rescinded the demonstration of need rules in August of 1972.

Another provision of the Education Amendments of 1972 was the creation of the Student Loan Marketing Association (SLMA), sometimes referred to as Sallie Mae. While special allowances increased yield as an incentive to investors, another disincentive still existed - the long term nature of the investment. Congress addressed this problem through providing a secondary market for student loan paper through SLMA. SLMA was set up as a private corporation with power, to borrow money from the Treasury. This money was then available to purchase student loans from lenders. Thus lenders could either sell, or borrow against, all or part of their student loan portfolio. This arrangement was designed to increase the willingness of lenders to participate in the program, increasing the supply of capital available for student loans.

II. THE EXPANDED ROLE OF STATE GUARANTEE AGENCIES

A. The Education Amendments of 1976

By 1976, the Federally Insured Student Loan Program (FISLP) had developed significant operating problems which received wide publicity and became the subject of Congressional hearings. The major criticisms which were leveled at the Office of Education at that time were the following:

1. Poor program administration leading to the withdrawal of commercial lenders because of late payments and burdensome regulations;

2. Failure to initiate a collections program on defaulted loans; and

3. Failure to maintain accurate and accessible records on the current status of loans guaranteed.

4. Failure to control defaults.

In contrast, the state guaranteed loan programs generally appeared to be better administered, to enjoy the confidence of their commercial lending communities, and to have lower default rates, by more aggressively collecting on defaulted loans.

Because of the comparatively better performance of the state guaranteed loan programs, Congress reaffirmed in the Education Amendments of 1976 that a guaranteed student loan program be established in every state and territory. These Amendments reflected the opinion of Congress that "states are in a superior administrative position to efficiently and effectively operate loan programs."*

Section 421(c) of the Education Amendments of 1976 required the Commissioner of Education to develop a plan to encourage the formation of state guarantee agencies and to report to the Congress on the progress of the plan. In addition, Congress provided substantial financial incentives for states which operate or create a guarantee agency. The new financial incentives included:

*Senate Report No. 94-882, Education Amendments of 1976, Committee on Labor and Public Welfare, 94th Congress 2nd Session, page 26.

1. Additional Federal advances to be used as reserves against claims payments;

2. Federal reinsurance of 100% for state guarantee agencies which keep their default rate in any given year below 5% of the loans outstanding at the beginning of the year;*

3. An Administrative Cost Allowance of up to one percent of all loans guaranteed to be used for agency operating costs; and

4. Retention of up to 30% of the amounts recovered on loans in default so the agencies would have an incentive to aggressively pursue defaulters.

B. The Activities of State Agencies

At the time of the 1976 Amendments, 25 states and the District of Columbia had established guarantee agencies. Many were in operation before GSLP was established. Today, all states, Puerto Rico, and the Virgin Islands have a state guarantee agency (which may be a private, non-profit corporation designated by the state).

As Exhibit III shows, FISLP played a decreasing role over this period. In 1981, it was only 6 percent of all GSLP loan volume. In 1976 it had been 40 percent. The 1976 initiative to create guarantee agencies in all states and territories and to shift the administration of GSLP operations to those agencies appears to have been largely successful.

The ten major administrative functions required to be performed under GSLP are summarized in Exhibit IV. The guarantee agencies were more effective at performing these functions and were closer to the program's school, lender, and borrower constituencies than FISLP. As Federal operating funds** began to be paid, agencies expanded the scope of their services to lenders (e.g., through interest billing, loan servicing, lender training, and secondary markets), to borrowers (e.g., through direct lending or lender of last resort programs), and to schools (e.g., borrower status

*Prior to the Education Amendments of 1976, the Federal Government paid only 80 percent reinsurance to state agencies.

**Federal funds for agency operations are primarily provided through the Administrative Cost Allowance which is equal to one percent of new loans guaranteed.

verification). These agencies also began to aggressively promote the program. The result was improved program administration just at the time both the demand for, and the supply of, loan capital was to increase drastically. The guarantee agencies administered the major part of the almost 500% increase in annual GSLP loan volumes in the first five years after the Amendments of 1976 were passed.

C. Expanded Access for Borrowers and Additional Incentives for Lenders

Other provisions of the 1976 amendments were important as well. The income ceiling for interest subsidy was raised from $15,000 to $25,000. This reflected the increase in the average income of families. Average incomes were increasing due in some measure to accelerated inflationary forces during that period. The increase on the income ceiling also reflected the desire of Congress that this financial aid be available to middle income families.

To continue to attract funds for a growing loan volume, the 1976 legislation linked Special Allowance rates to quarterly changes in the 91-day Treasury Bill rates. The yield to the investor was then set by a formula to equal the Treasury bill rate plus three and one half percent. The total special allowance payment cap was also raised from three percent to five percent.**

These two factors - expanded access for higher income borrowers and increased incentives for lenders - permitted substantial growth in the program in the late 1970's. These factors influenced both loan volumes and the costs associated with those volumes. (Exhibits VII and VIII).

**This ceiling on the Special Allowance was subsequently removed and the Special Allowance rate was permitted to float with market rates.

III. THE MIDDLE INCOME STUDENT ASSISTANCE ACT

A. Eligibility, Demand and Cost Increase

In order to ensure middle income families access to financial aid, especially student subsidized loan capital, Congress passed the Middle Income Student Assistance Act (MISAA) in 1978. Congress liberalized eligibility for the BEOG program and did away with the $25,000 income ceiling for interest subsidy in the GSLP. A family at any income level became eligible for interest subsidized GSLP loans.

Greatly increased availability and two other factors - increased education costs and high interest rates - combined to radically increase both loan volumes and program costs in the following years. In 1978, 817,000 borrowers received approximately $2 billion in student loans through GSLP. The average 91-day Treasury Bill rate for the year was 7.19%, and the maximum Special Allowance rate was 5.63%. The Federal costs for GSLP in 1978 were $705,000,000 (Exhibit V).

Student participation rates increased dramatically over the 1978 to 1981 period. In 1981, three out of ten students borrowed under the program; about one fifth of college attendance costs were covered by GSLP. Over three times as many borrowers participated in 1981 as did in 1978.

Inflation had an impact on the costs of education. The Consumer Price Index for 1978 stood at 195.4, by mid-1981 it had increased to 272.4 (Exhibit IX). The average loan amount increased as well.

There was a substantial increase in loan volumes in 1981. Program cost increased as well. The following, compares significant GSLP figures for 1978 and 1981:

	Item	1978	1981
1.	Borrowers	817,000	3,333,000
2.	Loan Volumes (In Millions of Dollars)	$1,648.0	$7,300.0
3.	Maximum Special Allowance Rate	5.63%	11.63%
4.	Federal Cost For GSLP (In Millions of Dollars)	$705.0	$2,535.0

B. State Guarantee Agencies Adjust to Increased Volumes

As the impact of the Middle Income Assistant Act began to be experienced, the state guarantee agencies reacted as follows:

1. Agency automated systems originally designed to handle smaller volumes and less complex transactions were enhanced or replaced to meet the higher volumes. Several agencies contracted with other agencies or outside services because they no longer could maintain in-house systems sophisticated enough to handle increased volumes and rapid statutory changes to the GSLP.

2. Agency staff sizes were increased and more emphasis was placed upon professional management.

3. Agencies undertook or encouraged programs such as direct lending and secondary markets in order to supplement the supply of loan capital available from private sources. (Exhibit VI).

Agency operating costs also increased, but these costs were more than offset by increased Administrative Cost Allowances and insurance premiums which were based on loan volume. Consequently, the agencies were able to pay the increased costs associated with administering an expanding program. In fact, many agencies accumulated substantial reserves since agency cash income exceeded cash expenses by a large margin. However, these reserves may be needed in the mid-1980's to pay operating costs or default expenses related to the loans made in the 1979-1982 period.

C. The Education Amendments of 1980

In 1980, the trends of increasing costs became apparent. Congress in the Education Amendments of 1980 sought to curb this increase. Congress raised the interest rate from seven to nine percent and shortened the grace period between graduation and the start of repayment from nine months to six months. Student annual and cumulative borrowing limit amounts were raised, however, which tended to increase program costs.

A major initiative under the 1980 Amendments was creation of a GSLP parent loan program. This program allowed parents of dependent, undergraduate students to borrow funds at nine percent to finance their children's higher education costs. Parent loans would, however, receive no interest subsidy and repayment would start within sixty days after

loan disbursement. Parent loans were to be Federally guaranteed and supported by Special Allowance payments to lenders. Annual and cumulative limits were placed on parent loan amounts as well. The effect of allowing parents to borrow was to increase the demand for loans; although the effect on supply remains uncertain because the program has not yet been fully implemented in most states.

State agencies which issued tax exempt revenue bonds to provide funding for the state GSL program obtained these funds at comparatively low interest rates. The yield paid on student loans was significantly higher than the tax exempt bond cost. Through the 1980 Amendments, Congress reduced by one-half the Special Allowance rates to be paid to these state agencies.

IV. THE CURRENT PERIOD

A. The Reconciliation Act of 1981

In 1981, costs were still accelerating and further cost reduction opportunities were sought. The parent loan program (PLUS) initiated the year before was modified significantly. In an effort to reduce costs, the interest cost to parent borrowers was raised from nine to fourteen percent. This reduced required Special Allowance payments. Independent undergraduate students and graduate professional students were also given eligibility to take out loans under the PLUS program.

Due to the significant processing differences associated with PLUS loans, new processing methods had to be developed. For automated systems, this meant extensive modification of the current software or development of altogether new software. Due to the many detailed factors involved in correctly processing loan transactions through approval, repayment, deferment/forbearance, or default, an adequate system development process is time consuming and expensive. This delayed the initiation of PLUS in many states.

The 1981 Reconciliation Act also expanded the role of Sallie Mae. Sallie Mae was authorized to act as guarantor for GLSP loans, including PLUS, in states where loan demand was not being fully serviced. It was further authorized to buy and sell state debt obligations and to service non-GSL student loans.

B. The Current Role of Guarantee Agencies

The GLSP is the largest form of higher education assistance today (Exhibit VII). It will comprise over two-thirds of an estimated $13 billion worth of assistance in 1982.

All fifty states now have GSLP Guarantee Agencies, with North Dakota initiating the program in June of this year. This represents the success of the Federal initiative to establish these agencies. It also represents a significant investment and asset. Many states have developed, at considerable cost, specialized loan processing systems. Guarantee agencies and loan servicing staffs have developed high levels of expertise. They have also developed close ties with lenders, schools, and borrowers.

Exhibit VI shows some of the characteristics of guarantee agencies. While the basic functions of the agencies are similar, there is a wide divergence in organization structure and the means by which these functions are accomplished. These differences reflect the historic, commerical, political, and geographical environment in which each agency has grown.

Despite efforts to reduce cost, high costs will probably continue for some time for the GSLP. The reason is that many costs are already committed. This is primarily due to the long term nature of student loans. For example, many loans guaranteed in 1982 will still require the maintenance of loan records by guarantee agencies more than ten years later, at which time the Federal government will still be making Special Allowance payments on the loans.

In terms of program administration, the guarantee agencies are the single most important element in the highly complex GSLP. The Federal government funds the program, but the guarantee agencies administer it.

Exhibit I

STATES THAT GUARANTEED LOANS
PRIOR TO GSLP INITIATION

	STATE	YEAR
1.	Connecticut	1966
2.	Georgia	1965
3.	Louisiana	1964
4.	Massachusetts	1956
5.	Michigan	1962
6.	New Hampshire	1962
7.	New Jersey	1960
8.	New York	1958
9.	North Carolina	1963
10.	Ohio	1962
11.	Pennsylvania	1964
12.	Rhode Island	1960
13.	Tennessee	1963
14.	Vermont	1964
15.	Virginia	1961

SOURCE: 1981 GSLP State Agency Survey, National Council of Higher Education Loan Programs.

EXHIBITS

Exhibit II

GSLP AS A PERCENT OF MAJOR STUDENT AID SOURCES a/

YEAR	POST SECONDARY STUDENT LOAN PROGRAMS b/ GSLP	NDSL	SSIG	SEOG	PELL (BEOG)	CWS	TOTAL STUDENT AID	GSLP PERCENTAGE OF TOTAL AID
1966	$ 77.5	$201.8	$ -	$ -	$ -	$123.9	$ 403.2	19.2%
1967	248.5	213.3	-	-	-	167.6	629.4	39.5
1968	435.8	214.9	-	-	-	174.9	825.6	52.8
1969	686.7	214.9	-	-	-	174.9	1,076.5	63.8
1970	839.7	217.2	-	-	-	190.6	1,247.5	67.3
1971	1,043.9	270.0	-	-	-	198.0	1,511.9	69.0
1972	1,301.6	351.8	-	-	-	533.3	2,186.7	59.5
1973	1,198.5	325.6	-	-	122.1	337.8	1,984.0	60.4
1974	982.0	331.1	40.0	210.3	475.0	337.8	2,376.2	41.3
1975	1,208.0	366.0	40.0	240.3	840.2	525.0	3,219.5	37.5
1976	1,735.0	367.8	88.0	240.1	1,325.8	487.5	4,244.2	40.9
1977	1,470.0	359.1	120.0	250.1	1,903.9	487.5	4,590.6	32.0
1978	1,648.0	361.9	127.6	270.1	2,160.0	543.8	5,111.4	32.2
1979	2,250.0	365.4	153.6	340.1	2,431.0	687.5	6,227.6	36.1
1980	4,840.0	334.2	153.6	370.0	1,718.0	687.5	8,103.3	59.7
1981	7,300.0	223.1	153.6	370.0	2,604.0	687.5	11,338.2	64.4

NOTES: a/ Source: ED Annual Evaluation Report Volume II Fiscal Year 1981. Pages 357 to 401.
b/ Includes the Federal Appropriations and Required Matching Funds for these Programs. GSLP Includes FISL Loan Volumes. All Program Figures are in Millions of Dollars.

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Exhibit III

GSLP LOAN VOLUME AND BORROWER INFORMATION

Year	GSLP LOAN VOLUME: GSLP Loan Volume a/	FISL As % of Total GSLP b/	GSLP As % of Total Student Aid e/	NUMBER OF BORROWERS b/: Direct Federal Insurance	State Guarantee	Total	AVERAGE LOAN AMOUNT
1966	$ 77.5	20%	19.2%	-	-	-	$ -
1967	248.5	20%	39.5%	-	-	-	-
1968	435.8	20%	52.8%	-	-	-	-
1969	686.7	20%	63.8%	331 d/	1,291 d/	1,622 d/	875 d/
1970	839.7	50%	67.3%	365	498	836	940
1971	1,043.9	48%	69.0%	482	535	1,017	998
1972	1,301.6	56%	59.5%	692	509	1,201	1,019
1973	1,198.5	53%	60.4%	599	431	1,030	1,137
1974	982.0	54%	41.3%	507	431	938	1,215
1975	1,208.0	51%	37.5%	505	486	991	1,310
1976 c/	1,735.0	40%	40.9%	522	776	1,298	1,408
1977	1,470.0	33%	32.0%	322	651	973	1,580
1978	1,648.0	24%	32.2%	268	817	1,085	1,805
1979	2,250.0	18%	36.1%	277	1,233	1,510	1,976
1980	4,840.0	10%	59.7%	236	2,078	2,314	2,092
1981	7,300.0	6%	64.4%	189	3,333	3,522	2,196

NOTES:
a/ Source: ED Annual Evaluation report, Volume II, Fiscal Year 1981, Pages 356 to 401. Figures Estimated. Volume Figures are in Millions of Dollars
b/ Source: Guaranteed Student Loans: A Background Paper Report No. 1 March 1982, NCSFA, Page 25. Figures are in Thousands of Borrowers
c/ Includes Lending During the Transition Quarter (July - September 1976)
d/ 1969 Figure Summarizes Years 1966 Through 1969.
e/ See Exhibit II.

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Exhibit IV

GUARANTEE AGENCY FUNCTIONS AND COMPONENT ACTIVITIES

1. LOAN APPROVAL PROCESSING

   a. Receiving of applications for purpose of insurance determination;

   b. Reviewing the applications;

   c. Making insurance determinations;

   d. Informing lenders of decisions;

   e. Payment of lender fees (if any);

   f. Recording the decisions;

   g. Processing student fee payments; and

   h. Establishing records of loans guaranteed.

2. ESSENTIAL LOAN SERVICING

   a. Maintaining records of loans guaranteed;

   b. Contacting students and/or lenders at graduation;

   c. Distributing student status verification mailers - direct return to lenders;

   d. Reconciling agency loan records with lender loan records; and

   e. Generating management reports on the status of the portfolio.

3.A. SPECIAL LOAN SERVICING - Interest Billing System

   a. Auditing lenders' portfolios for inclusion in the interest billing system;

   b. Maintaining billing systems and loan records;

   c. Preparing the U.S. Department of Education invoice;

   d. Receiving funds and disbursing said funds to lenders; and

   e. Preparing lender reports on portfolio balances.

Exhibit IV

GUARANTEE AGENCY FUNCTIONS
AND COMPONENT ACTIVITIES
(continued)

3.B. SPECIAL LOAN SERVICING - Servicing Lender Held Loans

a. Auditing lenders' portfolios for inclusion in the servicing system;

b. Maintaining servicing systems and loan records;

c. Undertaking student billing for unsubsidized interest;

d. Providing billing and payment processing service for loans in payout; and

e. Providing reports on portfolio status to lenders.

3.C. SPECIAL LOAN SERVICING - Positive Student Status Verification

a. Distributing student status verification mailers - direct return to agency;

b. Tracing borrowers whose addresses have changed; and

c. Notifying lenders of the student status of borrowers.

4. PRE-CLAIMS ASSISTANCE

a. Processing lender requests for assistance;

b. Attempting to contact borrowers, references, and cosigners as part of pre-claims assistance; and

c. Reporting to lenders on the progress of pre-claims assistance.

5. CLAIMS PROCESSING

a. Receipt of claims;

b. Review of claims;

c. Making determinations on claims;

d. Informing claimants of decisions;

e. Authorizing and disbursing claims payments;

f. Preparing claims for Federal reimbursement of paid lender claims;

Exhibit IV

GUARANTEE AGENCY FUNCTIONS
AND COMPONENT ACTIVITIES
(continued)

g. Forwarding and status monitoring of Federal reinsurance claims; and

h. Receiving and recording Federal funds paid in response to filed claims.

6. COLLECTION

a. Attempting to locate and contact borrowers after notes have been purchased;

b. Receiving, recording and depositing funds received;

c. Undertaking legal actions against borrowers;

d. Referring cases to, monitoring, and paying a commercial collection firm;

e. Establishing and servicing repurchase agreements with lenders for loans in which repayment is resumed; and

f. Reporting collections and making proportionate reimbursement to the U.S. Department of Education.

7. REGULATION AND COMPLIANCE

a. Generating and promulgating regulations;

b. Developing materials to communicate regulations to lenders and educational institutions;

c. Performing compliance activities (e.g., unannounced visits to review files) to insure that lenders are adhering to regulations; and

d. Undertaking to limit, suspend or terminate institutions which have failed to abide by the regulations of the program.

8. LENDER PROMOTION

a. Presenting speeches before general and special audiences of lender representatives;

b. Undertaking direct contacts with lenders for the purpose of stimulating participation in the program;

Exhibit IV

GUARANTEE AGENCY FUNCTIONS
AND COMPONENT ACTIVITIES
(continued)

c. Holding lender workshops; and

d. Designing and administering participation incentives (e.g., loan origination fees).

9. SCHOOL AND STUDENT LIAISON

a. Presenting speeches before student financial aid organizations and before student bodies;

b. Visiting high schools and institutions of higher learning for the purpose of promoting the program;

c. Development and publication of brochures specifically for distribution to, and use by, educational institutions; and

d. Generating loan reports by school for the purpose of promoting the program.

10. ADMINISTRATION

Administration for the guarantee program includes program management activities which cannot be easily classifiable with the functions described above. Examples of activities which would be included within Administration include the following:

a. Agency overhead in multiprogram agencies;

b. Performing liaison activities with representatives of other States and of the Federal Government;

c. Preparing and submitting monthly and quarterly reports;

d. Drafting and presenting the annual budget to the legislature;

e. Formulating and implementing personnel policies for the Agency;

f. Negotiating supply and other contracts with outside contractors;

g. Investing reserve funds; and

h. Providing accounting support.

Exhibit V

FISCAL INDICATORS AND GSLP PROGRAM COST

Year	FISCAL INDICATORS: Maximum Special Allowance Rate a/	Average 91 Day T-Bill Index b/	Consumer Price Rate c/	Annual Average Prime Rate d/	FEDERAL COSTS (In Millions) e/: In-School Interest Subsidy	Lender Special Allowance	Default-Related Cost f/	Total Federal Costs
1966	-	4.86%	-	5.63%				
1967	-	4.31%	100.0	5.61%				
1968	-	5.34%	104.2	6.30%				
1969	2.25%	6.67%	109.8	7.95%		UNAVAILABLE DATA		
1970	2.25%	6.39%	116.3	7.91%				
1971	1.25%	4.33%	121.3	5.72%				
1972	.75%	4.07%	125.3	5.25%				
1973	2.50%	7.03%	133.1	8.02%	$209	$ 33	$ 64	$ 306
1974	3.00%	7.83%	147.7	10.80%	NA	NA	NA	NA
1975	2.25%	5.78%	161.2	7.86%	$230	$ 87	$189	$ 506
1976	1.88%	4.97%	170.5	6.84%	NA	NA	NA	NA
1977	2.88%	5.27%	181.5	6.82%	$244	$ 106	$198	$ 548
1978	5.63%	7.19%	195.4	9.06%	$249	$ 195	$261	$ 705
1979	9.00%	10.07%	217.4	12.67%	$296	$ 401	$302	$ 999
1980	11.00%	11.43%	246.8	15.27%	$445	$ 820	$333	$1,598
1981	11.63%	14.03%	272.4	18.87%	$665	$1,500	$370	$2,535

NOTES:
a/ Source: Office of Student Financial Assistance Program Book, Page 44. The 1981 Rate is For 7% Loans.
b/ Source: Federal Reserve Board Information Sheet, I4-11 Based On Daily Average Rates.
c/ Source: Economic Report of the President, February 1982, Page 291, CPI Base Year is 1967.
d/ Source: Federal Reserve Board Information Sheet, I3-1, Based On Daily Average Rates.
e/ Source: Guaranteed Student Loans; A Background Paper, Report No. 1 March 1982, NCSFA.
f/ Includes Operating Expenses, 1981 Figures are Estimated.

Exhibit VI

OVERVIEW OF STATE GSLP PROGRAMS a/

State	Direct Lending Provided	Secondary Market Supported	Revenue Bonds Outstanding b/	Estimated Value of Loans Outstanding c/
Alabama				$ 5.0
Alaska		X		$ 16.0
Arizona				N/A
Arkansas	X	X	$ 10.0	$ 68.0
California	X	X	-0-	$ 750.0
Colorado	X	X	-0-	$ 109.8
Connecticut	X	X		$ 800.0
Delaware				$ 48.0
District of Columbia	X		$ 30.5	$ 23.2
Florida				$ 125.6
Georgia	X	X	-0-	$ 168.5
Hawaii				$ 20.2
Idaho		X	$ 20.0	$ 20.0
Illinois		X	$ 48.8	$ 965.0
Indiana		X	-0-	$ 200.0
Iowa		X	-0-	$ 178.0
Kansas		X	$ 61.5	$ 116.8
Kentucky		X	$ 30.0	$ 57.7
Louisiana	X	X		$ 116.8
Maine				$ 100.0
Maryland d/				$ 120.7
Massachusetts				$ 770.0

Exhibit VI

OVERVIEW OF STATE GSLP PROGRAMS
(continued)

State	Direct Lending Provided	Secondary Market Supported	Revenue Bonds Outstanding b/	Estimated Value of Loans Outstanding c/
Michigan	X		$128.0	$ 770.0
Minnesota	X		$193.3	$ 291.5
Mississippi d/				N/A
Missouri				$ 142.9
Montana		X		$ 14.0
Nebraska	X	X	$ 47.9	$ 48.8
Nevada				$ 19.7
New Hampshire				$ 66.0
New Jersey	X			$1,245.7
New Mexico	X			$ 25.5
New York				$3,200.0
North Carolina	X		$ 92.7	$ 105.2
North Dakota	X	X	$ 62.0	N/A
Ohio				$ 670.2
Oklahoma	X		$ 30.0	$ 84.2
Oregon				$ 118.1
Pennsylvania				$1,950.0
Rhode Island				$ 28.0
South Carolina	X		$ 23.9	$ 22.3
South Dakota		X	$ 83.0	$ 90.0
Tennessee				$ 173.0

Exhibit VI

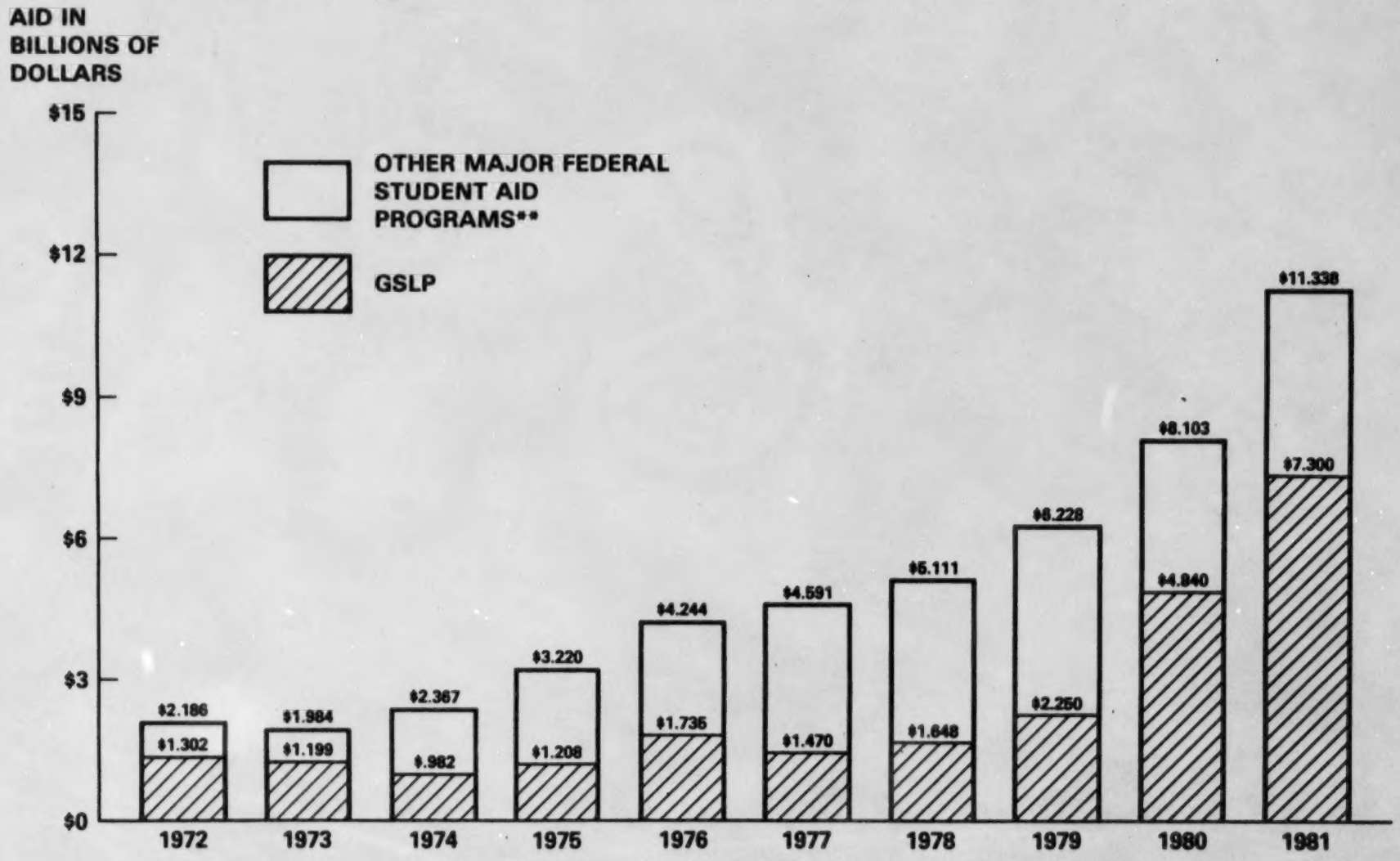
OVERVIEW OF STATE GSLP PROGRAMS
(Continued)

State	Direct Lending Provided	Secondary Market Supported	Revenue Bonds Outstanding b/	Estimated Value of Loans Outstanding c/
Texas	X	X	N/A	$ 5.8
Utah	X	X	$ 44.5	$ 105.0
Vermont				$ 59.0
Virginia	X	X	$151.7	$ 290.1
Washington				$ 94.0
West Virginia	X		$ 8.0	$ 9.3
Wisconsin	X		$215.0	$ 500.0
Wyoming	X	X	-0-	$ 3.3

NOTES:
a/ Source: 1981 GSLP State Agency Survey by the National Council of of Higher Education Loan Programs.
b/ If Blank, Bonds Not Issued by the State. Number is in Millions of Dollars.
c/ Loans Outstanding and Guaranteed in Millions of Dollars.
d/ Data Not Available.

EXHIBIT VII

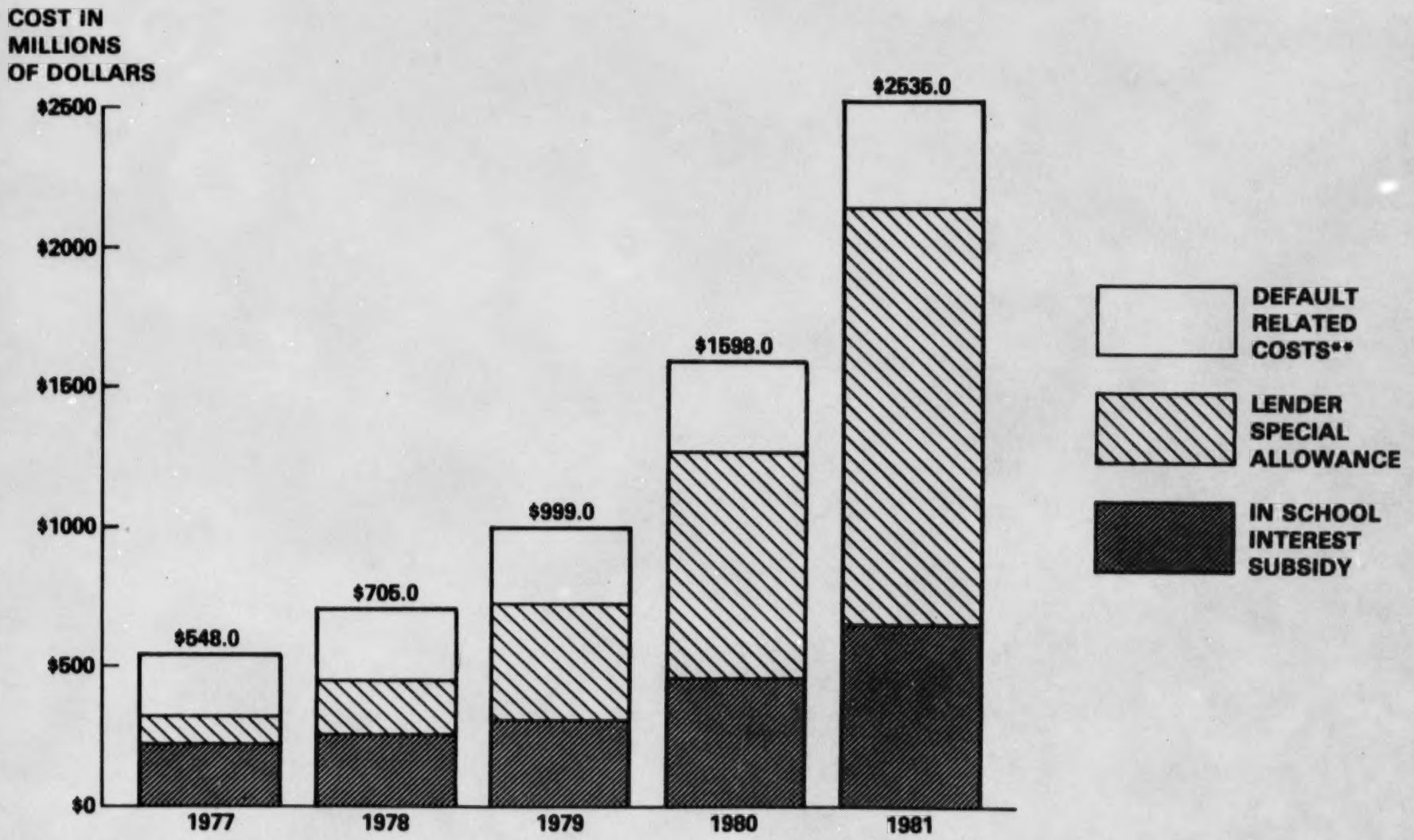
COMPARISON OF GSLP AS A PERCENT OF OTHER MAJOR STUDENT AID SOURCES*



*Source: ED Annual Evaluation Report Volume II, Fiscal Year 1981, Pages 357 to 401.

**Includes the Federal Appropriations and Required Matching Funds for the NOSL, SSIG, BEOG, PELL (BEOG) and CWS Programs.

EXHIBIT VIII
COST COMPONENTS OF THE GSLP FROM 1977 THROUGH 1981*

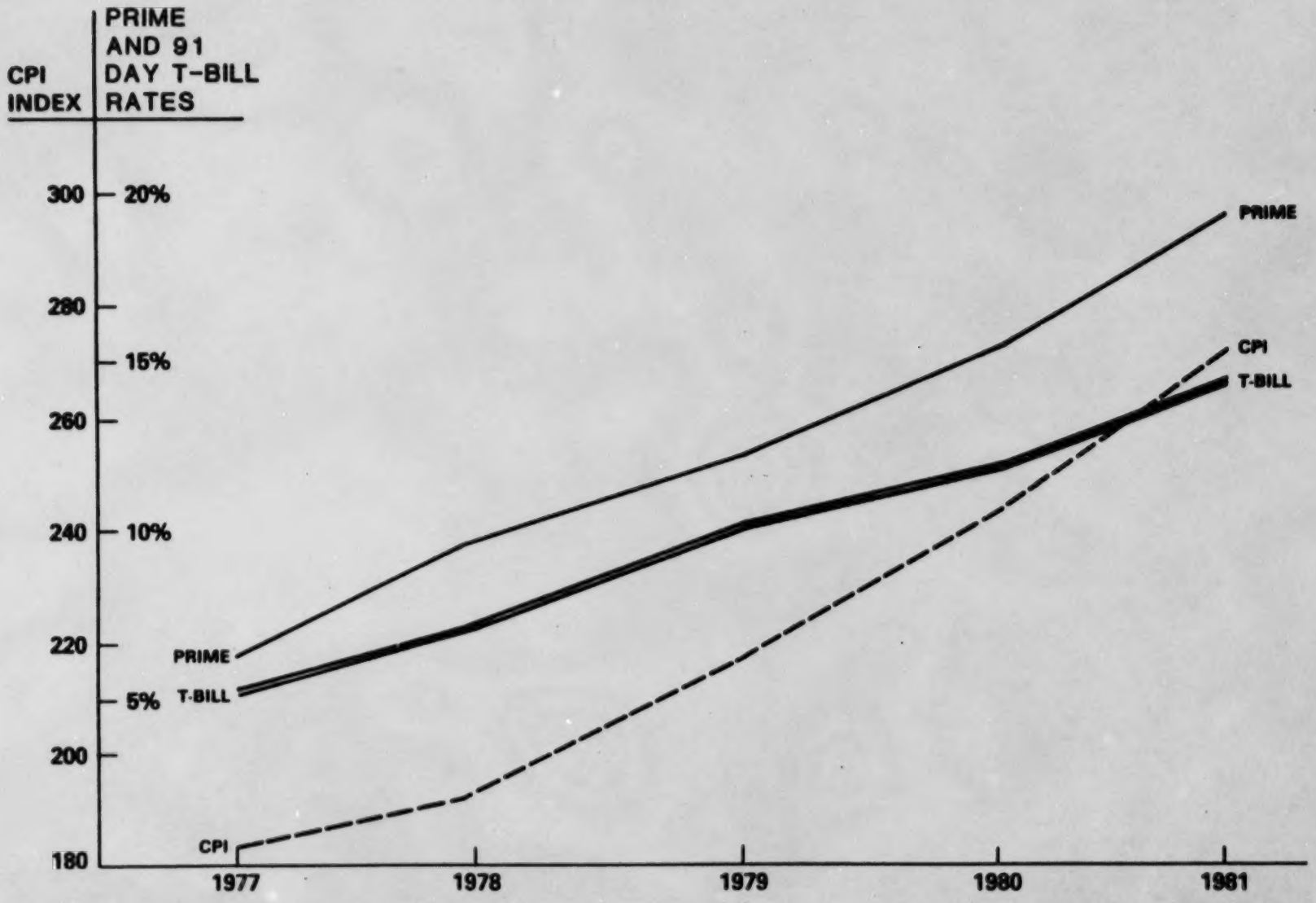


*Source: Guaranteed Student Loans: A Background Paper, Report No. 1, NCSFA, March 1982

**Includes Operating Expenses

EXHIBIT IX

TRENDS IN FINANCIAL INDICATORS FROM 1977 THROUGH 1981*



*Prime = Prime Rate, T-Bill = 91 Day Treasury Bill Rate, CPI = Consumer Price Index
Sources: Federal Reserve Board information sheets and Economic Report of the President, February 1982.